



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2017 Biennium

Bill # HB0107

Title: Revise defined contribution plan funding laws

Primary Sponsor: Cook, Rob

Status: As Introduced

Retirement Systems Affected:

<input type="checkbox"/> Teachers	<input checked="" type="checkbox"/> Public Employees	<input type="checkbox"/> Highway Patrol	<input type="checkbox"/> Police
<input type="checkbox"/> Sheriffs	<input type="checkbox"/> Firefighters	<input type="checkbox"/> Volunteer Firefighters	<input type="checkbox"/> Judges

- ☐ Has this legislation been reviewed by the legislative interim committee?
☒ Has the cost of this legislation been calculated by the system's actuary?
☐ Does this legislation include full funding for any benefit revisions?

PERS	July 1, 2014 Current System	July 1, 2014 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$6,177,504,549	\$6,177,504,549	\$0
Present Value of Actuarial Assets	\$4,595,805,330	\$4,595,805,330	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$1,581,699,219	\$1,581,699,219	\$0
Less: PCR-UAL	\$5,903,188	\$5,903,188	\$0
Net Unfunded Liability	\$1,575,796,031	\$1,575,796,031	\$0
Amortization Period (years) of UAAL	29.30	29.30	0.00
Change in normal costs	11.63%	11.63%	0.00%

*

* Changes would only be realized in future years

PERS-DC Disability	July 1, 2013 Current System	July 1, 2014 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$2,715,033	\$2,715,033	\$0
Present Value of Actuarial Assets	\$2,184,488	\$2,184,488	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$530,545	\$530,545	\$0
Amortization Period (years) of UAAL	DNA	0.00	0.00
Change in normal costs	0.33%	0.33%	0.00%

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*Changes would only be realized in future years

PERS	FY 2015 July 1, 2014	FY 2016 July 1, 2015	FY 2017 July 1, 2016	FY 2018 July 1, 2017	FY 2019 July 1, 2018
Employee Contribution Rate	7.90%	7.90%	7.90%	7.90%	7.90%
State & Univ. Contribution Rate	8.27%	8.37%	8.47%	8.57%	8.67%
State Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
Local Gov Contribution Rate	8.17%	8.27%	8.37%	8.47%	8.57%
State Contribution Rate	0.10%	0.10%	0.10%	0.10%	0.10%
State Contribution Rate	7.90%	8.00%	8.10%	8.20%	8.30%
State Contribution Rate	0.37%	0.37%	0.37%	0.37%	0.37%
TOTAL Contribution Rate	16.17%	16.27%	16.37%	16.47%	16.57%

FISCAL SUMMARY

	FY 2016 Difference	FY 2017 Difference	FY 2018 Difference	FY 2019 Difference
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Description of fiscal impact: Under current law the total contributions going to the Plan Choice Unfunded Actuarial Liability (PCR-UAL) are 2.37% of Public Employees' Retirement System Defined Contribution Plan (PERS-DC) and Montana University System Retirement Plan (MUS-RP) compensation, plus temporary contributions of 0.27% of such compensation, which was to be increased by 0.1% of compensation each year starting at July 1, 2014 (until a total additional increase of 1.27% was reached). These contributions are temporary and will no longer be paid to Public Employees' Retirement System Defined Benefit Plan (PERS-DB) when the elimination of these and other temporary contributions would result in an amortization period of the UAL of less than 25 years. If the PCR-UAL was paid off prior to cessation of the temporary contributions, then these temporary contributions would be made to PERS-DC Disability. Under HB107, if the PCR-UAL is paid off, these temporary contributions would be made instead to members' accounts beginning on January 1 following the actuarial valuation that shows that the PCR-UAL has been paid off.

FISCAL ANALYSIS

Assumptions:

1. The calculations are based upon the data, actuarial methods and assumptions as were used in the actuarial valuation as of June 30, 2014.

2. The actual results are dependent upon future experience conforming to the assumptions.
3. The number of active plan members will remain constant from the June 30, 2014 actuarial valuation.
4. Total payroll increased by 4%.
5. Plan assets will earn 7.75%.
6. The fiscal impact assumes this bill is the only amendment being considered. If other changes are also adopted, the fiscal impact associated with this bill could be different.
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8. Contributions to pay off the PCR-UAL are made at a rate of 2.74% of PERS-DC and MUS-RP active member compensation for the fiscal year beginning July 1, 2014.
9. This rate will increase to 2.84% for the year beginning July 1, 2015 under statute.
10. Projections from the June 30, 2014 actuarial valuation indicate that the PCR-UAL will become zero just prior to the June 30, 2016 fiscal year end.
11. Under HB107, these contributions would be allocated to members' accounts beginning January 1, 2017.
12. The contributions would be used to reduce the PERS-UAL for the projected time (June 2016 to the end of the calendar year) between when the PCR-UAL becomes zero and January 1, 2017.
13. The amount of the contributions during the projected time of approximately six months is estimated to be \$1.7 million.
14. These contributions toward the PERS-UAL would have a very minimal effect on future PERS funded ratios and amortization periods (less than 0.1% and 0.1 years, respectively).
15. The PERS DC Disability would no longer be able to receive the temporary contributions under current law (0.47% at July 1, 2015, 0.57% at July 1, 2016, etc.) from the time that the PCR-UAL would be paid off (approximately June 2016), until the temporary contributions were projected to terminate at January 1, 2019, a period of about two and a half years.
16. The estimated amount of contributions no longer directed to the PERS-DC Disability as a result of HB107 will be approximately \$2 million.
17. The last valuation of the PERS-DC Disability on June 30, 2013 reported the unfunded actuarial liability at approximately \$530,000. An updated projection of the PERS-DC Disability was not performed.

Technical Notes:

1. If the PCR-UAL is not paid off until July, 2016 rather than in June, 2016, it appears HB107 would then delay the date for allocating to the members' accounts for a full year to January 1, 2018.



Sponsor's Initials

06 JAN 2015

Date



Budget Director's Initials

1/5/15

Date